



Market and Trade Data

Beijing, Shanghai, and Guangzhou: Profiling Three of China's Largest HRI Markets

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Beijing, Shanghai, and Guangzhou were the first cities in China to benefit from economic reform and foreign investment, and today boast substantial elite urban populations.

According to restaurateurs, executive chefs, and food purchasing managers, distribution has made great strides in these three cities, the major HRI markets in China. National road, port, and cold chain infrastructure has improved, cutting transportation and delivery times. Companies have developed expertise in imported foods, becoming larger and more focused, while many small fly-by-nighters have dropped out of the picture.

Olympic Opportunities

The 2008 Olympic Summer Games should open the China market even further. Beijing is the focus, but the impact will be felt well beyond the capital in many other parts of China, especially other Olympic venues and cities around like Tianjin, Qingdao, Qinhuangdao, Shanghai, and Shenyang. Dozens of new hotels are being built to accommodate the expected flood of visitors; cooking instructors around the world are training local chefs to cook for athletes, staff, tourists, and other visitors. With the Olympic Games looming, the travel, food, and cruise service operators of the world are lining up to get into the China market.

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The Beijing Olympic Organizing Committee chose Western foods for as much as 70 percent of Olympic Village menu offerings and Chinese foods for the remainder. Caterers and catering service operators can apply to be suppliers to the 2008 Olympics through an open-global tendering system. Promotions linked to the games will occur nationwide, allowing many Chinese to sample foreign foods for the first time as part of their Olympic experience. Beijing's HRI revenues for 2008 are expected to reach \$2.2 billion.

U.S. suppliers hoping to succeed in this vast country should tailor their HRI products to specific geographic markets.

Beijing and Vicinity

GDP (gross domestic product): \$53 billion in 2004

Per capita disposable income: \$2,000 annually

Population: 15 million

Beijing and its environs are home to numerous political, diplomatic, cultural, educational, and business elites. The area is also a major tourist destination that played host to 120 million Chinese and 4 million overseas tourists in 2004. In 2008, 125 million tourists are projected to visit, 5 million of them from foreign countries.

These factors have made Beijing a major HRI market; in fact, Beijing's HRI sector is its largest and fastest growing consumer business. In 2004, the capital had over 40,000 food service outlets, employing nearly 400,000 people. Branding and chain operations appear to be two high growth areas. Beyond Beijing, with continuing economic expansion, rising incomes, and growing tourism, Qingdao, Dalian, and Harbin have quickly emerged as major restaurant destinations in North China.

Catering: As noted above, the 2008 Summer Olympics are producing a huge catering opportunity for businesses in and around Beijing. The Olympic Games HRI revenue pie is expected to exceed \$2.2 billion. In addition to the venues and the Olympic Village, the entire city should

experience high demand. The Olympic Committee estimates that over 270,000 players, officials, staff, and media — and 7 million spectators — will attend. The Olympic Village will offer 24-hour catering service, serving a projected 22,000 people 50,000 meals per day.

Restaurants: Beijing has a rich and varied food culture and history that is reflected in its restaurants. As a geographic and economic crossroads, all regional and ethnic cuisines meet in Beijing, with international flavors adding other dimensions to the gastronomic landscape. Time-honored brands like Quan Jude Roasted Duck and Dong Laishun Mutton Hotpot represent the essence of Chinese cuisine. Modern renditions of formerly imperial snacks attract Chinese and foreigners alike. Maxim's, FLO Brasseries, KFC, Pizza Hut, and McDonald's, along with Yoshinoya and Mawaru Sushi, are familiar. Wealthy and trend-conscious Chinese, expatriate residents, and visitors have an enormous list of food and beverage options.

While elite niche markets have become a hallmark of Beijing's restaurant trade, middle-class, white-collar consumers and the huge tourist influx sustain the middle market. Expenditures per restaurant meal average \$8 per person. However, dining patterns are changing, with people under 40 eating out to save time and the work of home meal preparation. Demand has shifted from simply quelling hunger to enjoying delicious, healthy dishes as gastronomic entertainment.

Hotels: Beijing's high-end hotels serve as excellent venues to introduce and test-market new cuisines and foods. The run-up to the Olympics has prompted a frenzy in refurbishing old and constructing new hotels in Beijing. Expanded tourism will likely provide steady growth in Beijing's hotel segment, now characterized by occupancy rates well above 85 percent. Room availability must grow by 45,000 units for the 2008 Summer Olympics; Beijing will need a total of 100 four- and five-star hotels needed to meet this ambitious target.

Shanghai and Vicinity

GDP: \$93 billion in 2004

Per capita disposable income: \$2,085 annually

Population: 20 million

Shanghai is one of China's leading commercial centers and its largest port. The city stands at the center of a massive web of development. Its economy is becoming increasingly focused on finance and services, as rising prices drive manufacturing further afield, while international companies (in finance, banking, trade, etc.) continue to pour in. Shanghai is an aggressively cosmopolitan city, with cutting-edge knowledge of foreign brands and fashions. So, while Shanghai has its own distinct food culture, its people are also open to new tastes, making the city an excellent market for imported foods.

As in the rest of China, food plays a central role in all aspects of Shanghai life. Business, networking, celebrations, and friendly get-togethers are invariably conducted over meals. Food items are often given as gifts and constitute an important niche market. Shanghai is also an affluent city, and local residents are more than willing to pay for quality products, provided they can be persuaded the items are truly special. For example, a top local delicacy, the Yangcheng Lake hairy crab, can sell for as much as \$200 per kg (1 kilogram = 2.046 pounds).

Catering: Traditionally, the Shanghai catering industry has been a poor venue for imports due to its focus on box lunches produced for less than \$1 apiece. But this is starting to change, as concerns about food safety have led many Shanghainese to distrust established box lunch manufacturers. To appeal to these consumers, several high-end restaurants, and retailers such as Lawson's, have begun offering box lunches. Significantly more expensive than traditional box lunches, their appeal lies in high quality and convenience. This trend has created a potential opportunity for U.S. products, and several companies have contacted Lawson's about including their products in box lunches.

Offsite catering has also become a booming business for hotels and restaurants. All of Shanghai's five-star hotels report their offsite catering has mushroomed: some report higher revenues from this than from their onsite restaurants. Element Fresh, one of the city's first restaurants to offer large amounts of fresh raw vegetables, organic items, and functional foods, has also found big business in offsite catering.

Restaurants: Shanghai is home to one of China's most vibrant and innovative restaurant scenes. Shanghai now hosts a cohort of world-class restaurants, including Jean-Georges, Sens et Bund, and Laris, catering to its growing business elite. Pizza restaurants are becoming increasingly popular.

A key trend is the rapid emergence of high-end Chinese-style restaurant chains, such as Shanghai Uncle, Xiaonanguo, and Lulu's. Chinese prefer to entertain guests in restaurants.

Business dinners in particular place a premium on impressive displays of generosity, and therefore hosts prefer to patronize restaurants that offer reliable quality: foreign cuisines are interesting, but may be unfamiliar and unsuitable for some occasions. Such restaurants specialize in a reliably excellent dining experience with high-end ingredients and consistent preparation. They innovate in recipes, but only within certain limits. However, their demand for consistent quality, willingness to pay higher prices, and very high volume (Xiaonanguo has 20 large restaurants) make these restaurants an excellent venue for imported ingredients. They all serve imported wines, and most import a number of other ingredients. Shanghai Uncle has an exclusive arrangement with Gallo Wines,

and Lulu's featured fresh Washington cherries in a 2005 promotion.

Shanghai also has a large number of Western restaurants serving expatriates and locals who have either lived abroad or are just interested in trying something new. Western restaurants are important both as customers for high-end products and a means of introducing new products. Specialty and ethnic restaurants are becoming increasingly common, creating niche markets for very high-end items. Organic foods are also becoming popular.

Demand for knowledge about preparation and handling of Western foods is high, and Shanghai has a chronic shortage of well-trained Western chefs. One estimate puts the number of fully qualified chief chefs at 100, most of them in star-rated hotels. This unfilled demand constitutes an excellent opportunity for exporters and distributors willing to commit the time and effort to introduce and explain their products.

In conjunction with the local chef associations, ATO Shanghai (the FAS Agricultural Trade Office in Shanghai) holds chef seminars throughout East China that are invariably packed. These events provide USDA cooperator groups (such as the Alaska Seafood Marketing Institute, the U.S. Meat Export Federation, the USA Poultry and Egg Export Council, Sunkist Growers, and the California Table Grape Commission) not only the chance to introduce their products, but also to explain proper preparation techniques and potential innovative uses. ATO Shanghai has taken these activities far beyond Shanghai to Chengdu, Chongqing, Hangzhou, and Nanjing, and received an outstanding response from the local restaurant communities.

Hotels: Revenues for Shanghai's hotel industry topped \$1.7 billion in 2004. The hotel segment, although extremely well developed, is expanding rapidly from overwhelming demand. Five- and four-star hotels are routinely fully booked, and in peak seasons may have no vacancies. At the end of 2004, Shanghai had 359 star-rated hotels, 61 of them four- or five-star establishments. Marriott has targeted the Yangtze River Delta for development. Holiday Inn plans to build hotels in every city in China with an airport in the next few years, including seven in Shanghai.

The hotel industry is an ideal entry point for new-to-market and high-end imported ingredients. Top hotel restaurants have the most qualified chefs for foreign cuisine. These chefs tend to be more familiar with imports and menu promotions, and their high profile in the trade means other operators follow their lead.

Beyond Shanghai are dozens of boomtowns like Suzhou and Hangzhou with growing expatriate communities. Hotel restaurants there often serve as centers of community life, giving them great influence over the trade in their respective cities. Introducing new products into distant cities requires close coordination with local distributors, which is generally much more forthcoming with the support of one of the city's top hotels.

Guangzhou and Vicinity

GDP: \$200 billion in 2004

Per capita disposable income: \$1,700 annually

Population: 20 million

Guangdong Province is often called the economic engine of China. The HRI sector in Guangdong and the Pearl River delta is

developing relatively fast. In 2004, Guangdong's HRI industry revenues reached \$12.47 billion, a 13.7-percent increase over the previous year.

In Guangzhou, the capital of Guangdong, per capita expenditures for dining out average \$515 per year — the highest of any city in China. The Cantonese are famous for eating and very open-minded toward new products. Different styles of food find their own markets, and the Cantonese are willing to try almost everything, although they still prefer traditional Cantonese dishes. Food imports enjoy a good reputation among consumers throughout South China. The provinces surrounding Guangdong are also developing rapidly, with many emerging cities like Xiamen, Changsha, Fuzhou, Nanning, Guiyang, Sanya, and Guilin.

Catering: The catering industry in South China mainly focuses on box lunches retailing for \$1 - \$2 per unit. The low price makes it hard for imports to compete with local products. However, some local catering chains are expanding and targeting the higher end of the market. One of the selling points used by these chains is reliable quality, which suits consumers' desire for food safety. This desire provides good opportunities for U.S. products. Consumers' higher spending for those meals, usually \$3 - \$4 per box, allows the catering company to consider using imports like poultry, cheese, and potato products.

The expatriate community also fuels demand for high-quality and Western-style catering service. To accommodate the rising number of expatriates working in the region, more international schools have been set up for their children. Parents expect these schools to provide safe, high-quality meals that include a variety of Western-style dishes. This development has helped give imports a wedge in the market.

Offsite catering is getting popular in South China. Most five-star hotels and high-end restaurants now offer offsite catering service and reported increased sales in 2005. Guangzhou Restaurant, a famous chain serving Cantonese cuisine, is providing both offsite catering and prepared dishes for take away. The holiday season also creates large demand for such service. Due to higher budgets generally available for offsite catering, the dishes may include some expensive ingredients, like lobster, prawns, and scallops. Such dishes provide another outlet for imports.

Restaurants: Dining out has long been a priority for the Cantonese. Famous for its food, Guangzhou is regarded as a center of delicious cuisines. Restaurants have to be creative and offer innovative dishes to stay competitive.

Chefs are integrating new food ingredients and different preparation styles from other regions, or even countries, into traditional Chinese cooking, creating many fusion foods. And with heightened their awareness of food safety, consumers are more than willing to pay a premium for dishes that contain green, organic, and nutritional ingredients. These two trends have spurred demand for some U.S. products, such as Wisconsin ginseng and California almonds, perceived as having health benefits or that can be used in fusion dishes, such as Washington cherries.

Wine consumption, especially red, has gone up in the last five years. U.S. wines are slowly gaining a foothold in this rapidly developing market. Wine dinners occur on a regular basis at leading restaurants in South China, and consumers are increasingly interested in learning how to select and pair wines with various cuisines.

Western-style restaurants are developing quickly in South China, serving the growing expatriate population and Chinese consumers. Most counties in Guangdong have Western restaurants and coffee shops. Leading chains like the Greenery Café and Green Island serve a combination of Chinese, Southeast Asian, and Western foods, and their operators adjust recipes to suit local palates.

McDonald's, KFC, Starbucks, Taco Bell, Pizza Hut, Papa John's, Pizza Hut, Subway, and Dairy Queen have been extremely successful; the sales revenues of McDonald's and KFC in Guangdong are their highest in all of China. To meet the demand of late night working customers working late shifts, dozens of McDonald's outlets in Guangzhou operate around the clock. Western fast-food chains also use many imported ingredients. McDonald's and KFC source 50 percent of their French fries from the United States, also use U.S. corn on the cob and poultry.

Domestic fast-food chains, which usually emphasize Chinese dishes, are striving to increase market share, too. J-Kungfu is the first such chain to have more than 100 outlets. However, Chinese

fast-food chains are limited in their use of imports by their lower per-meal cost (usually around \$2).

Serving Food Service: Educating the HRI sector to handle and use imported food ingredients will continue to be a key task in penetrating this market. Teaching them about the unique characteristics of U.S. ingredients will help Chinese chefs understand their uses and how to incorporate them into their menus. China's rapid HRI growth has led to growing pains from the shortage of experienced, trained personnel, and training of chefs is one way to solve the problem.

ATO Guangzhou regularly organizes chef seminars and competitions in major South China cities, often with support from U.S. producer and trade associations. South China chefs are very curious about U.S. ingredients and Western cooking methods, and are eager to enhance their cooking skills and so differentiate their restaurants from their competitors.

These activities are well attended not only by chefs, but by others in the food service industry, and help the entire HRI sector better understand the characteristics and benefits of U.S. food ingredients. Many U.S. products introduced to local chefs through these seminars, such as almonds, walnuts, and chestnuts, have been widely adopted.

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